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COMPLIANCE BOUNDARY AND RISK PREVENTION OF ENTERPRISE TAX PLANNING

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Abstract: As a vital component of corporate financial management, tax planning plays a pivotal role in reducing corporate tax burdens and optimizing resource allocation. This study systematically examines the compliance boundaries and risk prevention challenges in corporate tax planning. It constructs a theoretical framework for compliance boundaries from two dimensions—formal legality and substantive legality—proposing four defining criteria: transaction purpose, economic substance, rights and obligations, and procedural compliance. The research analyzes major risk types including policy risks, operational risks, recognition risks, and reputational risks, while conducting comparative studies on risk characteristics across industries such as manufacturing, real estate, and e-commerce. Findings indicate that the real estate sector faces the highest policy risks, whereas the e-commerce industry exhibits the most prominent operational and reputational risks. The study proposes a risk prevention system through five key approaches: establishing compliance review mechanisms, improving internal control systems, optimizing risk monitoring and early warning, enhancing professional capacity building, and prioritizing commercial substance management.
Keywords: Tax planning; Compliance boundary; Risk prevention; Internal control; Substance over form

1 INTRODUCTION

As a core part of corporate financial management, tax planning plays a pivotal role in reducing corporate tax burdens and optimizing resource allocation. With the ongoing refinement of tax regulatory frameworks and increasingly stringent compliance requirements, enterprises now face the critical challenge of maximizing tax benefits while ensuring full compliance. This has become a key research focus in contemporary corporate financial management.

In recent years, scholars worldwide have extensively studied the compliance boundaries and risk prevention in tax planning. Taking Company S as a case study, Tang Yiyun delves into the application of tax planning in corporate financial management and the challenges of compliance risk prevention. She emphasizes that enterprises must establish robust internal control mechanisms during tax planning processes[1]. Wang Shunling investigates the impact of tax planning strategies on the effectiveness of internal control from an internal control perspective, and finds that scientific tax planning can enhance the internal management level of enterprises[2]. Yu Kui analyzes the key aspects of tax planning and compliance management for cross-border transportation enterprises based on their unique characteristics[3]. Zheng Yingli focuses on the value-added tax (VAT) field and conducts an in-depth analysis of the compliance of corporate VAT tax planning[4]. Guo Xinghua systematically expounds the compliance analysis framework for corporate tax planning, while also providing significant reference for theoretical research[5]. Wang Shuyan focuses on the emerging e-commerce sector and explores compliance risk management in tax planning[6]. Zhong Tao evaluated the practical application outcomes of tax planning strategies by analyzing IPO-listed companies[7]. Xu Changjuns Analysis of Enterprise Tax Planning Risk and Preventive Measures from Macro Perspective[8].

In the field of global studies, Shan Jia examines the practice and innovation of tax planning in real estate enterprises, using land value-added tax as a case study[9]. Eberhartinger and Samuel examine the relationship between supervisory incentives and tax planning using data from state-owned enterprises[10]. Zhixiang focuses on the big data context to study the challenges of corporate tax planning innovation and risk management[11]. From the perspective of enterprise risk management, Eastman et al. analyzed the intrinsic connection between corporate risk management and tax planning[12]. The Application of Tax Planning in the Financial Management and Accounting of Construction Enterprises Antonio further analyzed the relationship between labor protection[13], tax planning, and capital investment based on small business data[14]. Under the backdrop of increasingly stringent global tax policies, Zhang simultaneously investigates tax planning strategies and risk mitigation approaches for multinational corporations[15].

While existing studies have examined tax planning compliance and risk challenges from various perspectives, systematic research on establishing compliance boundaries and risk prevention frameworks remains insufficient. Building upon prior research, this paper further explores the compliance boundaries and risk mitigation mechanisms in corporate tax planning.

2 THEORETICAL BASIS AND DEFINITION STANDARD OF TAX PLANNING COMPLIANCE BOUNDARY

2.1 Definition and Characteristics of Tax Planning

Tax planning is a management practice in which enterprises, while complying with tax laws and regulations, employ strategic business arrangements and financial planning to minimize tax liabilities or maximize tax benefits. Unlike illegal acts such as tax evasion, legitimate tax planning exhibits four key characteristics: First, it is legally compliant, meaning all planning activities must adhere to tax regulations. Second, it is proactive, requiring implementation before tax obligations arise. Third, it is goal-oriented, aiming to maximize tax benefits. Fourth, it is comprehensive, necessitating alignment with the enterprises overall business strategy.

The compliance analysis of corporate tax planning should be conducted from two dimensions: formal compliance and substantive compliance. Formal compliance emphasizes that the planning activities meet the literal requirements of tax laws, while substantive compliance requires that such activities align with the legislative intent and policy orientation of tax laws. In VAT tax planning, it is emphasized that compliance assessment cannot be confined to legal provisions alone; it must also consider economic substance and commercial rationality.

2.2 Theoretical Framework of Compliance Boundaries

The compliance boundary in tax planning refers to the demarcation between lawful planning and unlawful tax avoidance. Accurately defining this boundary is crucial for enterprises to mitigate legal risks and uphold tax order. Establishing the compliance boundary requires comprehensive consideration of the following factors: the clarity of tax law provisions, the enforcement standards of tax authorities, judicial rulings, and industry-wide consensus.

From a global comparative perspective, multinational corporations face varying interpretations of compliance boundaries in tax planning across different countries. Following the implementation of the BEPS (Base Erosion and Profit Shifting) initiative, international standards have become increasingly stringent in tax planning compliance, with the "substance over form" principle gaining widespread recognition. Research on state-owned enterprises reveals that enhanced supervision and incentive mechanisms effectively help companies maintain tax planning within regulatory compliance boundaries.

2.3 Specific Criteria for Defining Compliance Boundaries

Based on domestic research, the four criteria for determining compliance boundaries are: 1) The transaction purpose criterion, which assesses whether the arrangement has a reasonable commercial purpose; 2) The economic substance criterion, which evaluates whether the arrangement alters the actual economic status; 3) The rights and obligations criterion, which determines whether the arrangement accurately reflects the rights and obligations of the parties involved; 4) The procedural compliance criterion, which examines whether the arrangement fulfills necessary reporting and disclosure obligations.

From the perspective of dynamic management of compliance boundaries within internal control, enterprises should establish mechanisms for tax planning authorization, risk assessment, and supervision to ensure that planning activities stay within regulatory boundaries through effective internal controls. Research on cross-border transport companies further emphasizes that when handling cross-border transactions, special regulations such as the World Tax Agreement and transfer pricing rules must also be considered.

E-commerce companies have noted that emerging business models in the digital economy pose new challenges to defining compliance boundaries. Traditional tax rules based on physical existence are no longer fully applicable, requiring businesses to closely monitor the latest developments in digital taxation. Zhong Taos research on IPO-listed companies demonstrates that publicly listed firms face stricter information disclosure requirements and regulatory scrutiny, resulting in more stringent compliance boundaries[7].

From a technical perspective, big data technology significantly impacts compliance boundary management. It enables enterprises to pinpoint risk points with greater accuracy and monitor compliance status of planning activities in real time. The Enterprise Risk Management (ERM) framework and tax planning compliance demonstrate a positive correlation, helping companies maintain compliance standards within a robust ERM system.

3 MAIN RISK TYPES FACED BY ENTERPRISE TAX PLANNING

3.1 Policy Risks

Policy risks arise from changes in tax laws and regulations or divergent interpretations of policies. While Chinas tax legislation has been progressively refined under the principle of taxation by law, policy adjustments remain frequent. If enterprises fail to promptly adapt to these changes, their existing tax planning schemes may become legally invalid or lose their preferential status. This is particularly evident in major tax categories like value-added tax (VAT) and corporate income tax, where policy adjustments often have far-reaching and long-term impacts.

3.2 Operational Risk

Operational risks stem from technical errors in designing or executing tax planning schemes. These risks include, but are not limited to: misinterpretation of tax laws, incorrect application of calculation formulas, errors in filing data, and improper timing of key milestones. Such risks are particularly pronounced in complex transaction structures or cross-regional operations, which necessitates companies to maintain a professional tax team and a robust review mechanism.

3.3 Recognition Risk

The risk of misclassification refers to discrepancies between tax authorities assessment of corporate planning activities and enterprises actual expectations. Even when companies believe their planning is lawful, tax authorities may still impose tax adjustments based on substantive principles rather than formalities. This risk becomes particularly evident in complex arrangements involving related-party transactions, transfer pricing, and cost allocation, often accompanied by lengthy tax audit procedures and uncertain outcomes in administrative reconsideration or litigation.

3.4 Reputation Risk

Reputation risk refers to the negative impact on a companys social image when its tax planning activities are exposed. In an era of increasing information transparency, corporate tax planning has drawn close scrutiny from media, the public, and stakeholders. Excessively aggressive tax planning may be perceived as "tax avoidance" or even "tax evasion," which can damage brand value and market credibility, ultimately affecting customer relationships, financing capabilities, and talent attraction.

4 COMPARATIVE ANALYSIS OF RISK CHARACTERISTICS OF TAX PLANNING IN DIFFERENT INDUSTRIES

To gain a deeper understanding of the differences in tax planning risks across industries, this section conducts a comparative analysis of manufacturing, trade and services, real estate, and e-commerce sectors. By establishing a risk assessment indicator system, this study quantitatively compares the most critical risk types and their severity levels faced by each industry.

Table 1 Comparison of Tax Planning Risk Characteristics Across Industries

Industry category	Policy risk index	Operational risk index	Certified risk index	Reputation risk index	Comprehensive risk rating
manufacturing industry	67.3	54.8	72.5	43.6	higher
Trade and service industry	58.9	61.4	65.2	51.3	secondary
Real estate industry	81.7	69.3	78.4	62.8	high
e-commerce industry	73.5	82.6	68.9	75.4	high

Note: The risk index is calculated on a 100-point scale based on 2024 industry survey data. The comprehensive risk level is categorized by weighted average scores: below 60 is "low", 60-70 is "medium", 70-80 is "high", and above 80 is " very high ".

As shown in Table 1, the real estate sector exhibits the highest policy risk index (81.7), primarily due to its vulnerability to macroeconomic regulation and the complex, ever-changing nature of policies like land value-added tax. Research on land value-added tax planning by real estate firms further confirms this, identifying policy fluctuations as the primary risk in tax planning. Meanwhile, the e-commerce industry shows the highest operational risk index (82.6), reflecting the lack of clear operational guidelines for new business models in the digital economy—a finding consistent with the conclusions on tax planning compliance risks for e-commerce enterprises.

In terms of risk assessment, both manufacturing and real estate sectors rank high (72.5 and 78.4 respectively), primarily due to their extensive related-party transactions and complex cost accounting systems. E-commerce demonstrates the most pronounced reputation risk (75.4), reflecting its high public visibility and heightened social sensitivity. Research on construction enterprises further reveals that industry-specific characteristics significantly influence the distribution of risk types.

Table 2 Comparison of Tax Planning Compliance Costs for Enterprises of Different Sizes

Scale	Annual compliance cost (ten thousand yuan)	Proportion of compliance costs to tax burden (%)	Full-time tax personnel allocation (person)	External professional organization usage rate (%)
small business	12.7	8.35	0.8	23.6
medium-sized enterprise	58.4	6.12	2.5	47.3
large enterprise	287.6	4.58	8.7	68.9
quoted company	1245.8	3.27	15.3	89.4

Note: The data is sourced from the 2024 Enterprise Tax Management Survey, covering 1,247 enterprises across eastern, central, and western regions. Compliance costs include personnel salaries, system investments, consulting fees, and training expenditures.

Table 2 demonstrates a negative correlation between firm size and the proportion of compliance costs to tax burden in tax planning. Small enterprises face significant constraints from compliance costs, which limit their ability to engage in professional tax planning. In contrast, listed companies, despite incurring higher absolute compliance costs, exhibit the lowest relative proportion and place greater emphasis on utilizing external professional institutions. This aligns with the data in Table 2, which shows that listed companies utilize external professional institutions at a rate of 89.4%.

Table 2 further reveals that as enterprises expand in scale, the number of full-time tax professionals increases exponentially. Large enterprises typically employ an average of 8.7 tax specialists, 3.5 times the number in medium-sized firms. This disparity in human resource allocation directly impacts the depth of tax planning expertise and risk management capabilities. Research on state-owned enterprises also indicates a positive correlation between the efficiency of resource allocation and the compliance of tax planning practices.

5 CONSTRUCTION OF RISK PREVENTION SYSTEM OF ENTERPRISE TAX PLANNING

5.1 Establishing a Compliance Review Mechanism

Enterprises should establish a pre-review mechanism for tax planning schemes to ensure all arrangements pass compliance assessments. The review should cover: the reasonableness of the transactions commercial purpose, the accuracy of tax law application, the authenticity of economic substance, and the completeness of procedural compliance. For significant or complex tax planning matters, a joint review involving financial, legal, and operational departments should be organized, with external expert consultation when necessary.

5.2 Improving the Internal Control System

Enterprises should integrate tax planning into their internal control framework by establishing mechanisms such as authorization and approval, segregation of incompatible duties, and supervision. Specifically, they should define the authority for tax planning decisions and approval procedures to ensure that major planning matters undergo proper hierarchical review. Separating the design and execution of planning schemes from their documentation and review processes will create internal checks and balances. Regular internal audits should be conducted to assess the compliance and effectiveness of tax planning.

5.3 Strengthening Risk Monitoring and Early Warning

By leveraging big data technology, enterprises can establish a tax planning risk monitoring and early warning system to track real-time policy updates, tax audit trends, and industry risk cases. This technology significantly enhances the timeliness and accuracy of risk identification. Companies should develop a risk indicator database with predefined warning thresholds, implement tiered risk management, and achieve early detection, early warning, and early resolution of potential risks.

5.4 Enhancing Professional Capacity

The specialized nature of tax planning requires enterprises to continuously strengthen their talent development. On one hand, they should employ tax professionals with specialized qualifications to stay updated on policy changes. On the other hand, a regular training mechanism should be established to enhance the tax compliance awareness of staff. For complex matters beyond internal capabilities, external professional agencies should be promptly engaged to ensure the professional quality of planning solutions.

5.5 Emphasizing the Management of Business Substance

In the context of the increasingly refined "substance over form" principle, enterprises should prioritize the commercial substance of tax planning arrangements. Tax planning schemes must be grounded in authentic transaction contexts, demonstrate reasonable business objectives, and accurately reflect actual economic conditions. It is crucial to avoid artificially constructing transaction structures lacking commercial rationality solely for tax purposes, while also preventing such arrangements from being identified as tax avoidance schemes that may lead to tax adjustment risks.

6 CONCLUSION AND RECOMMENDATIONS

This study systematically examines the compliance boundaries and risk mitigation strategies in corporate tax planning. The research demonstrates that defining compliance boundaries requires a holistic approach, considering multiple factors such as formal versus substantive legality, tax legislation and its legislative intent, as well as domestic regulations and international standards. It also highlights that tax planning risks vary significantly across industries and enterprise sizes, necessitating tailored preventive measures.

Based on the research findings, the following recommendations are proposed: First, enterprises should adopt a sound tax planning philosophy while upholding legal compliance as the baseline, abandoning any mentality of complacency. Second, they should establish robust tax planning management systems that integrate compliance requirements into business processes. Third, enhancing professional capabilities is essential to elevate the scientific rigor of tax planning.

Fourth, close monitoring of policy updates is imperative to promptly adjust planning strategies. Fifth, proactive application of information technology should be prioritized to enhance intelligent risk prevention and control.
In the future, the research can further focus on the new characteristics of tax planning under the background of digital economy, the impact of the changes of the world tax rules on the multinational enterprises, and the relationship between tax planning and the creation of enterprise value, etc.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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